

Minneapolis Community Development Agency

Request for City Council Action

Date: May 20, 2003

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Dollie Crowther, Senior Project Coordinator, Phone 612-673-5263

Approved by Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director _____

**Subject: APPROVAL OF THE LOW INCOME HOUSING TAX CREDIT MANUAL
AND QUALIFIED ALLOCATION PLAN**

Previous Directives: In May 2002, the Council approved the Qualified Allocation Plan and the LIHTC Manual.

Ward: All.

Neighborhood Group Notification: City-wide Program. Public Hearing scheduled with the Minneapolis/St. Paul Housing Finance Board.

Consistency with *Building a City That Works*: Livable Neighborhoods that are safe. Provide a diversity of housing choices.

Comprehensive Plan Compliance: Consistent with the objective of providing affordable opportunities for low and moderate-income residents.

Zoning Code Compliance: Not applicable.

Impact on MCDA Budget: (Check those that apply)

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain):

Application fees would be collected to offset administrative expenses.

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Living Wage / Business Subsidy: Not applicable.

Job Linkage: Not applicable.

Affirmative Action Compliance: Each project will comply.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council approve the Low Income Housing Tax Credit (LIHTC) Manual and Qualified Allocation Plan as detailed in this report and authorize staff to proceed with a request for proposals for LIHTC's.

Dear Council Member Goodman:

Background/Supporting Information

The Omnibus Budget Reconciliation Act of 1993 authorized the permanent extension of the Low Income Housing Tax Credit Program (LIHTC). The LIHTC offers a reduction in tax liability to owners and investors of eligible low income new construction, rehabilitation, or existing rental housing. Program changes in state and federal law are made from time to time and need to be incorporated into the Qualified Allocation Plan and Procedure Manual.

The MCDA, on behalf of the Minneapolis/St. Paul Housing Finance Board, acts as the designated LIHTC suballocator for Minneapolis and is expected to receive \$998,977 of 2004 LIHTC. In the past, the suballocators have agreed to turn around approximately 5% of this allocation for the non-profit competitive pool. The suballocators chose to keep this set aside and not participate in the non profit competitive pool. This means the Metro pool will not be increased and will have only \$544,639 to designate. MHFA administers this pool.

Federal law requires suballocators to adopt a Qualified Allocation Plan and Procedural Manual which sets forth selection criteria for the allocation of tax credits to qualified rental housing developments.

Minnesota Statutes (Sections 462A 221-225) provides that all applications for low income housing tax credits must meet at least one out of five threshold criteria.

Staff has felt it necessary to redirect its threshold requirement in order to remove the limitations on providing more flexibility in creating a variety of unit sizes and types and encourage mixed income, mixed used developments. This has resulted in a request for a change to threshold criteria #1.

The five project threshold requirements are listed below with the proposed change indicated by underlining the addition.

THRESHOLD CRITERIA:

1. New construction or substantial rehabilitation of projects in which at least 75% of the total tax credit units are single-room occupancy, efficiency, or one bedroom units and which are affordable by households whose income does not exceed 30 percent of the median income;
2. New construction or substantial rehabilitation family housing projects that are not restricted to persons who are 55 years of age or older and in which at least 75% of the units contain two or more bedrooms and at least one-third of the 75% must contain three or more bedrooms;
3. Substantial rehabilitation projects in neighborhoods targeted by the City of Minneapolis or the City of Saint Paul for revitalization;
4. Projects in which at least 50% of the units are for mentally ill, mentally retarded, drug dependent, developmentally disabled, or physically handicapped persons, all as further described in Minnesota Statutes, Section 462A.222, Subdivision 3(c) (l)(3);
5. Projects which preserve existing subsidized housing which is subject to prepayment if the use of tax credits is necessary to prevent conversion to market rate use.

The previously approved Selection Criteria is listed below. There are no proposed changes to the 2004 allocation plan.

SELECTION CRITERIA

Maximum Points

- | | | |
|----|--|----|
| 1. | a) The project is located in a city recognized redevelopment area and has been reviewed and is supported by staff/officials of the MCDA, HRA or the City of Minneapolis. | 10 |
| | 1.(b) (for Minneapolis projects only) meets the goals of the City/County Task on Homelessness and the City of Minneapolis' Comprehensive Housing Affordability Plan and received support in writing from the city recognized planning organization which represents the geographic location of the project.
(Support must be evidenced in writing.) | 10 |

Request for City Council Action
May 20, 2003
Page 4

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|--|---|--|------------------------------|--------------|---|--------------|----|-------------|----|--|
| 2. | The project promotes family housing that is not restricted to persons 55 years Old or older, for the Extended Use Period, whereby 25% or more of the rental Units in the project have three or more bedrooms. Points are awarded as follows: | 5-15 | | | | | | | | |
| | <table border="0"> <tr> <td style="text-align: left;"><u>% of Units 3BR or larger</u></td> <td style="text-align: right;"><u>Points Awarded</u></td> </tr> <tr> <td>at least 25%</td> <td style="text-align: right;">5</td> </tr> <tr> <td>at least 50%</td> <td style="text-align: right;">10</td> </tr> <tr> <td>75% or more</td> <td style="text-align: right;">15</td> </tr> </table> | <u>% of Units 3BR or larger</u> | <u>Points Awarded</u> | at least 25% | 5 | at least 50% | 10 | 75% or more | 15 | |
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| at least 25% | 5 | | | | | | | | | |
| at least 50% | 10 | | | | | | | | | |
| 75% or more | 15 | | | | | | | | | |
| 3. | A tax exempt 501(c)(3) or 501(c)(4) non-profit organization, whose primary service area is the cities of Minneapolis and/or Saint Paul, is a material participant of the project. (i.e. project sponsor and participation as a general partner). | 5 | | | | | | | | |
| | Must have IRS 501(c)(3), or (4) approval from the IRS at the time of application, and meet requirements of Internal Revenue Code (IRC) (42(h)(5)(c)). | | | | | | | | | |
| 4. | The project provides suitable housing combined with supportive services for occupancy by homeless households. Homeless households shall be defined as a person or persons living in a shelter, on the streets, or doubled-up in housing not their own. The developer must provide satisfactory evidence of a commitment from an appropriate social service agency to provide support services. | 15 | | | | | | | | |
| 5. | Projects that are not restricted to a particular age group in which, for the term of the Extended Use Period, at least 50% of the units are set aside and rented to persons: | 5 | | | | | | | | |
| | (i) with a serious and persistent mental illness as defined in MN Statute Section 245.462, subdivision 20 paragraph (c); | | | | | | | | | |
| | (ii) with a developmental disability as defined in United States Code, Title 42, Section 6001, paragraph (5), as amended; | | | | | | | | | |
| | (iii) who have been assessed as drug dependent persons as defined in MN Statute Section 254A.02, Subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in MN Statute Section 254A.092, Subdivision 2; | | | | | | | | | |
| | (iv) with a brain injury as defined in MN Statute Section 256B.093, Subdivision 4, paragraph (a); or | | | | | | | | | |
| | (v) with permanent physical disabilities that limit major life activities, if at least 50 percent of the units are accessible as provided under Minnesota Rules, Chapter 1340. | | | | | | | | | |
| 6. | The project provides resident support services (i.e. information and referral, advocacy, case management, self-reliance training, resident association and community building activities) contingent upon an agreement with an established organization providing such services to residents and financial plans demonstrating feasibility. | 5 | | | | | | | | |

Request for City Council Action
May 20, 2003
Page 5

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| 7. | The applicant agrees to include in the Declaration or other agreements acceptable to the MCDA, as applicable, provisions acceptable to the MCDA that permit residents of the proposed project to materially participate as defined by Minnesota Statutes Section 273.124, subd. 6(b) in property management of the project. | 5 |
| 8. | The developer has a recommendation of support in writing for the project from a city recognized citizen participation community planning council, or neighborhood-based planning organization which represents the geographic location of the project, (a recommendation of support from the applicant is not eligible for points). | 5 |
| 9. | The project is located in a "non-impacted area" (as defined by HUD) of the City of Minneapolis (see attached map A). | 20 |
| 10. | The project preserves below market rate subsidized low income housing which due to mortgage prepayments or foreclosure would be converted to market rate use. | 5 |
| 11. | <p>The project constitutes the rehabilitation of an existing building for housing as follows:</p> <p>Rehabilitation per unit of \$25,001 or more. (15 points)
 Rehabilitation per unit of \$5,000 - \$25,000. (10 points)
 The project will receive historic tax credits. (5 points)</p> | 5-15 |
| 12. | The project has received a prior credit allocation from the Board and has received "significant subsidies", but due to a shortage in allocation available in a prior year Credits the project requires an allocation of Credits in the current year in order to be financially feasible and viable. | 15 |
| 13. | Intermediary Costs (soft costs). Points will be given to projects on a sliding scale of intermediary costs based on the percentage of total project's cost. For selected projects, this percentage will be enforced at issuance of the IRS Form 8609. (0-8 points) | 0-8 |

% of Total Project Cost	Points
0-15%	8
15.1-24%	6
24.1-30%	4
30.1-35%	2
35.1-Over	0

- | | | |
|-----|---|------|
| 14. | Promotes economic housing integration. Points will be awarded for the election of the following percentage of low income units to the total units in the project. | 1-10 |
|-----|---|------|

Request for City Council Action
May 20, 2003
Page 6

% of Tax Credit Units/Total Units	Points
80 - 90%	1
70 - 79.9%	2
60 - 69.9%	3
50 - 59.9%	4
40 - 49.9%	6
30 - 39.9%	8
20 - 29.9%	10

MAXIMUM SELECTION PRIORITIES POINTS WHICH CAN BE AWARDED:

148

Preference Criteria

Point Range

- Points will be awarded to projects that extend the duration of the low income use or the longest period. Projects received 1 point for every five years over 20 years, to a maximum of 5 points, that the project is to remain as qualified low income housing, as provided in the proposed Declaration and financial plans demonstrating financial feasibility and viability to the satisfaction of MCDA. In order to qualify for points under this criteria, the developer must include the term of low income use in the Declaration and waive the option to terminate the Declaration after 15 years and secure a first mortgage financing commitment with a term that meets or exceeds the declared period for extended use as low income housing.
- Points will be awarded to Projects that serve the lowest income tenants. The following number of points will be awarded if, as verified by gross rent levels, (i) the average household income of tenants of the project in qualifying units is equal to the corresponding percentage of the Minneapolis/Saint Paul MSA median income adjusted for family size, shown below, (ii) the applicable fraction is at least the corresponding fraction shown below, and (iii) the rents for such units are not greater than 30% of the applicable income limit:

0 - 5

0 - 12

Percentage of Median Income	Applicable Fraction of Low Income Units		
	20%-30%	30.1%-40%	40.1%-50%
51-60%	1 point	2 points	3 points
41-50%	2 points	4 points	6 points
31-40%	3 points	6 points	9 points
30% or below	4 points	8 points	12 points

PREFERENCE CRITERIA POINTS WHICH CAN BE AWARDED:

MAXIMUM
17

TABLE

LIHTC Application Scoring Summary

SELECTION CRITERIA

1.	(a) Redevelopment Area	10 points
	(b) Plan Goals	10 points
2.	Family Housing	5-15 points
3.	Non-Profit	5 points
4.	Homeless w/Services	15 points
5.	Disabled	5 points
6.	Support Services	5 points
7.	Property Management	5 points
8.	Neighborhood Support	5 points
9.	Non-impacted Area	20 points
10.	Repayment	5 points
11.	Rehab	5-15 points
12.	Prior Allocation	15 points
13.	Intermediaries	0-8 points
14.	Economic Integration	1-10 points

PREFERENCE CRITERIA

1.	Duration	0-5 points
2.	Tenants	0-12 points